NEWPORT LEGACY SEOUL KOREA: THE END OF THE BANKING BOOM WILL AFFECT YOUR RETIREMENT

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Bank profits.

The end of easy payouts from the big banks will be felt in surprising ways. Photo: Getty

The long boom in Australian banking is coming to an end as investment bank UBS marks down the four major banks to either a hold or a sell, with new regulations likely to impinge on the banks’ business model.

UBS analyst Jonathan Mott has reviewed all the big four in recent months. This week he recommended to his clients that they sell the National Australia Bank, in part because of the bank's radical decision to slash its workforce.

"We remain concerned that its restructuring (including 6000 gross redundancies – 18 per cent of headcount) is likely to be disruptive at a time when the revenue environment is challenging and the regulatory environment is hostile," Mr Mott and fellow analyst Rachel Bentvelzen said in a report.

They were also unimpressed by Westpac and the ANZ in recent months, predicting no share price growth. When the Commonwealth Bank reported a 1.2 per cent rise in half-yearly profit to $4.9 billion this week, UBS was underwhelmed with the result and maintained a “neutral” recommendation.

“Higher credit losses in institutional banking are inevitable given the very low base, but once again brings into question why CBA has been lending internationally,” the analysts wrote.

Banks have been one of two great drivers in the Australian share market in recent years, the other being resources. Together they account for about 45 per cent of the total market, with financials at 29.6 per cent and resources 15.7 per cent.

While resources have been volatile, gaining only 0.7 per cent in that time as a result of the major smashing they received before China recently regained its minerals appetite, financials have been a reliable market driver, as the above chart shows.

But financials look like losing that position with the big banks “at a fundamental turning point”, said Martin North, principal of Digital Finance Analytics.

Bank share prices have been driven by the housing boom which has lost its steam, particularly in Sydney and in inner urban apartments, the bank tax and the upcoming Hayne royal commission, but Mr North said some other factors are changing the landscape.

“The banking sector is increasingly open to disruption through changes like open banking and positive data sharing

foreshadowed by Treasury this week," he said.

That means banks will soon be forced to provide transaction and product data to customers, who will then be able to share it around to get a better deal. That will break down the competitive advantage of the big four's huge customer base and give a leg up to new competitors – such as 'neobanks'.

(A 'neobank' is a bank that operates entirely online, and markets itself as using the latest banking technology.)

When the big banks are hit by disruption it’s not only borrowers who will feel the effects through cheaper interest rates. Their shareholders, who include the major Australian superannuation funds who have 25 per cent of their assets invested in Australian shares, will also be faced with lower returns.

To replace the easy money from banks, “investors would have to look elsewhere for returns”, independent economist Saul Eslake said. “That could be hard as the Australian market does not have many companies in the new and emerging markets segments like technology and biotech.”

That means it’s hard to get exposure to ‘unicorns’, the stellar performers like Apple and Google that have built Silicon Valley fortunes.

“Even if you can find growth it would be difficult to find the high dividend yields the banks have been paying which would make it hard for retirees to keep up income levels.”